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REPORT SERIES 1988

88-1 EDUCATION FUNDING IN ONTARIO

THE ASSOCIATION OF MUNICIPALITIES OF ONTARIO
FEBRUARY, 1988

90-00849/

ASSOCIATION OF MUNICIPALITIES OF ONTARIO

The Association of Municipalities of Ontario, a non-partisan voluntary organization, is united to promote the values of the municipal government system and the status of the municipal level of government as a vital and essential component of the total inter-governmental framework of Ontario and Canada.

The Association acts as the collective voice of Ontario's municipal governments and is organized to accomplish through cooperation and coordination, what the majority have neither the time nor the resources to do individually.

The Association represents some six hundred (600) municipal governments throughout Ontario. The governing body is composed of some eighty (80) municipal elected and appointed officials, who in turn represent a wide-range of municipal government interest.

The following sections and affiliated municipal professional associations form an important part of the Association's structure and therefore, play an important part in its activities in terms of the Board of Directors, program and policy development:

Association Sections:

* County and Regional Section
* Large Urban Section
* Northern Ontario Section (FONOM/NOMA)
* Rural Section (ROMA)
* Organization of Small Urban Municipalities Section

Association Affiliates:

* Association of Municipal Clerks and Treasurers of Ontario
* Association of Municipal Tax Collectors of Ontario
* Municipal Engineers Association
* Ontario Municipal Administrators Association
* Ontario Municipal Personnel Association
* Ontario Municipal Social Services Association
* Society of Directors of Municipal Recreation of Ontario
* Urban Finance Officers Association of Ontario

To the Municipal Clerk:

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EDUCATION FUNDING IN ONTARIO

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AMO Report 88-1 - "Education Funding in Ontario" was forwarded in February 1988 to the Honourable Chris Ward, Minister of Education, the Honourable Robert Nixon, Treasurer of Ontario and the Honourable John Eakins, Minister of Municipal Affairs.

Executive Summary

The Association of Municipalities of Ontario has a particular interest in the future impact of school funding on the local tax base. School taxes have contributed more to the recent rise in local taxation, growing 9.0 percent per household on an annual basis since 1981, compared to 7.7 percent annual growth in municipal taxes. In addition, school board taxes, province-wide, represent over 50 percent of the total municipal tax levy.

In recent years the provincial government has initiated various programs to improve the overall educational system in the Province. AMO is concerned with the impact of new programs and services on the property tax base.

In addition to new programs and services, the provincial government has introduced, for discussion purposes, various, alternative mechanisms for funding education such as the pooling of commercial and industrial assessment for education purposes. The government has also recently extended funding to separate school boards. Each new program and service and each proposed new financing arrangement has an impact on the property tax base.

The following paper presents the Association's recommendations on various education finance options in the Province of Ontario. It does not examine the overall education system as this is beyond the mandate of the Association. The analysis is therefore limited to education in terms of its financial impact on the local property tax base.

The paper presents a brief description of the different methods of education finance in all of the provinces in Canada as well as a summary of the historical patterns of education finance in Ontario. The remainder of the paper is dedicated to the current system of education finance in Ontario as well as options to the current funding arrangement.

In review of the options listed in this report, the Association recommends:

That for the 1989 transfer of General Legislative Grants to school boards, the provincial government provide a minimum of 60 percent funding (i.e. at least 60 percent to each school board) of total school board expenditures;

That the Ministry of Education revise its system of apportionment so that the school tax burden will be shared on a more current and equitable basis. That all municipalities undergo county/region/district wide reassessment to create proper equalization factors;

That the pooling of commercial and industrial assessment for education purposes be rejected;

That the introduction of a property tax credit program for residential and farm rate-payers be rejected;

And that the Association reaffirms its ultimate goal of 100 percent provincial funding of education.

Minority Positions

ROMA, the Rural Section of AMO, does not concur with the recommendation of the provincial government provision of 60 percent funding of education, as it is felt that it is an interim measure which will delay the ultimate objective of removing education costs from the property tax base.

The County and Regional Section of AMO concurs with the recommendation of the provincal government provision of a minimum of 60 percent funding of total school board expenditures and suggests that per pupil grant ceilings should be adjusted to more realistic levels, with additional general legislative grants and that the Ministry of Education employ accurate costing techniques, articulate the ceiling components, and study the appropriateness of introducing differentiated ceilings based on curriculum divisions, levels of difficulty and programs delivered.

The Northern Ontario Section of AMO concurs with the recommendation of 100 percent provincial funding of education provided that the current grants to municipalities are maintained.

INTRODUCTION

The Association's policy position on education (E-01) states that:

AMO will concern itself with those educational policies which may directly or indirectly affect municipal administration. The Association supports greater liaison with boards of education and the Ministry of Education particularly in view of the fact that education taxes are collected by municipalities.

In 1987, the Association endorsed a resolution, FIN-12 - Use of Property Tax to Fund Educational Costs, which requested that the provincial government assume responsibility of total funding of education services in the province of Ontario. The reasons for this resolution were that: property taxes have escalated tremendously since the inception of the larger unit school boards; and, the education system is for the betterment of all society and accounts for over one-half of the property tax bill and has no direct relationship to the worth of a property.

This resolution is consistent with AMO's response to the Report of the Commission on Financing of Elementary and Secondary Education in Ontario, 1986, (Macdonald Commission) which urged the government to determine the means for removing all education costs from the property tax base. In addition, the Association stated that until the province assumes 100 percent of education costs it should reaffirm its responsibility to fund education and therefore return to a province-wide minimum funding of 60 percent of realistic expenditure ceilings.

The Association is concerned with the increasing costs of education especially in light of new educational programs announced by the provincial government. In the 1987 provincial speech from the throne, the government announced its renewed commitment to elementary education by stating that it would provide school boards with resources to: reduce class sizes in grades one and two; increase the use of computers and educational software; purchase new textbooks and other learning materials; and, help teachers to update their knowledge of computer skills. In recent years, the government has for example, made legislative amendments to extended funding to separate school boards as well as introduced programs for native and french language instruction. Where new programs and services are added, the Association is concerned with the impact that these enriched programs have on the property tax base.

The following text attempts to present a municipal position on the financing of education as well as to outline the Association's position on the possible alternatives to the present funding arrangement. In addition, current funding schemes in the various provinces as well as some historical information on the Ontario example have been included in the report as background information.

CHAPTER 1 - EDUCATION FUNDING ACROSS CANADA

The provinces of Quebec, Ontario, Saskatchewan and Alberta have two publicly funded systems of education. Quebec has a Catholic and a Protestant system and permits students without religious affiliation to attend either system. The other three provinces have a system which serves residents who are members of the Roman Catholic Church and a system which is available to all students regardless of religious affiliation. In each of these four provinces, the property owners decide to which system their property taxes are to be directed. Quebec and Alberta distribute corporate assessment on the basis of pupils enrolled in the school systems. Saskatchewan distributes it in the ratio of declared assessment support and in Ontario, the undeclared assessment supports the public school system.

In eight of the ten provinces, the responsibility for providing funds to school boards for public education is shared between provincial governments and local municipal taxing authorities. In New Brunswick and Prince Edward Island, education is entirely financed by the provincial government.

Throughout Canada, provincial funding for education is secured from various sources including: general revenues; sales taxes; provincial income taxes; natural resource royalties; provincial levies on property taxes; and, fiscal transfer payments from the federal government.

The provinces of British Columbia, Alberta and Manitoba have adopted forms of assessment "pooling" to finance education costs. In British Columbia, the province pools local taxes on non-residential properties for education purposes and subsequently redistributes them through provincial grants to school districts. Alberta is currently undergoing a review of its education funding system with consideration of implementing the pooling of residential, commercial and industrial properties for education purposes. At present, the province levies funds from non-residential properties and redistributes them through provincial education grants. In addition school boards levy funds from residential and non-residential properties for school purposes. The province of Manitoba levies funds on all real property for education purposes. Local school authorities also levy funds on real property for education purposes.

Table 2 - Provincial/Municipal Education Funding Across Canada

PROVINCE	PROVINCIAL percentage	MUNICIPAL percentage
British Columbia (1983)	64.2 - 99.6	35.8 - 0.4
Alberta (1986)	63.99**	36.01
Saskatchewan (1983)	53.3	46.7
Manitoba (1986)*	77.0 (average)***	28.0 (average)
Ontario (1986)*	45.9 (average)	54.1 (average)
Quebec (1986)*	99.0	1.0
New Brunswick (1986)*	100.0	
Prince Edward Island (1986)*	100.0	
Nova Scotia (1984)	80.0	20.0
Newfoundland (1984)	95.0	5.0

* These figures were obtained from an informal survey of Executive Directors of Canadian Municipal Associations.

** In Alberta, the provincial percentage of 63.9 includes a levy on industrial and commercial properties of 7.04 percent.

*** In Manitoba, the provincial percentage of 77.0 includes a levy on residential, farm and non-residential properties of 24.0 percent.

BRITISH COLUMBIA

Education in the province of British Columbia is funded by both provincial and local government contributions. Provincial grants are supported by two revenue sources: revenues obtained from provincial taxation of non-residential property (i.e. commercial and industrial assessment); and, general provincial revenues. Local government contributions are obtained from local taxation on residential property.

School district operations, services and program costs supporting the basic curriculum established by the province are eligible for a "shared cost" grant. School district costs recognized by the province are referred to as the "sharable operating budget". The grant is the product of an equalization formula designed to provide greater provincial support to lower wealth school districts. Wealth is measured by comparing local property wealth in relation to the number of students in the school district with a provincial average. Sixty percent of each district's sharable operating budget is paid by the province. The next 35 percent of each sharable operating budget is eligible for an additional "shared cost" grant based on a sharing ratio determined by the provincial equalization formula. The remaining 5 percent is financed at the local level.

In 1983, the provincial share of each school district's gross total budget ranged from 64.1 percent to 99.6 percent.

ALBERTA

Currently, the sources of funding education in the Province of Alberta are: general revenues of the Province; provincial levy on commercial and industrial property; local school board taxes on residential and non-residential property; and, miscellaneous school board fees, sales and interest.

Most provincial funds to school boards are distributed through a variety of conditional and unconditional grants. Conditional grants are usually conditional upon the delivery of a particular program or service in accordance with Department of Education policies and guidelines. Unconditional grants are not related to any class of operating expenditure.

One of the conditional grants is the Basic Per Pupil Grant which is provided by the government to all public and separate school jurisdictions, approved private schools and private early childhood education services. In 1986, public and separate school boards received: $1,849 for each elementary student; $1,990 for each junior high student; and, $2,146 for each senior high student.

Other conditional grants include: student transportation grants; school building support grants; equity grants; special support grants; and, special education funding. These grants are dependant upon variables such as delivery of services, wealth disparity and type of area (i.e. rural, urban).

Currently, a discussion paper is being prepared by the provincial government to describe the various issues involved in the funding of education and to propose alternative ways of addressing the issues. These issues include: equality of access to an education program; level of taxes paid by residential and non-residential taxpayers throughout the province; and, the increasing dependence of school boards on local revenues and the declining proportion of provincial revenues.

Five options to fund education are being discussed in the Province of Alberta. While three of these options involve minor adjustments to the current system, the other two involve major restructuring in the ways in which education is financed. These latter two options are forms of assessment pooling.

One of these options would remove school boards' ability to tax non-residential property. All non-residential property would be taxed provincially and the revenues would be redistributed to school boards.

The other option is a variation of total pooling but would permit school boards to continue to tax local businesses and industries but only up to a mill rate set by the province. The province would also tax non-residential property in order to generate sufficient funds to improve equity across jurisdictions.

Each of these options are being reviewed by interested parties and comments will be forwarded to the provincial government for consideration before any legislation is considered.

SASKATCHEWAN

In Saskatchewan, education is financed by contributions from provincial and local governments. Provincial assistance is determined by applying a recognized per pupil rate to the enrollment in a division, recognized rates for transportation, administration, debt, etc. These operating grants are known as "total recognized expenditures". In 1983, direct provincial support represented about 53.3 percent of total education expenditures.

Local contributions are determined by multiplying the equalized assessment of each school district by provincially determined mill rate. School districts may exceed these "recognized expenditures" but must do so by increasing the local levy.

MANITOBA

In Manitoba, there are two principal revenue sources to support the operation of public schools: the consolidated revenues of the provincial government and real property taxation in the form of the province-wide education support levy set by the provincial government (ESP levy) ; and, the special levy set by each local school board. The first two sources of revenue are known as the "Education Support Program". In 1984,

the provincial share of this program was 65 percent and the local property taxpayer share was 35 percent. If the provincial revenue source is inadequate to meet the school expenditures, then the requirement for raising revenue falls on the local property tax base.

In 1986, the provincial share of grants was 77 percent of the total expenditure. However, 24 percent of the 77 percent was levied from the property tax base. The local share of expenditures above the 24 percent collected by the province was 23 percent of total school expenditures.

QUEBEC

Budgetary rules which are approved each year by the Minister of Education determine a level of expenditures for grant purposes. This budget is based on historical parameters adjusted yearly according to the enrollments of the preceding two years. The level of grant for each school board is calculated individually and covers, on average, 99 percent of total operating costs (1986 figure). The amount of expenditures exceeding this level is funded through a school board levy on the property tax base.

It should be noted that Quebec has an entirely different provincial/municipal fiscal arrangement than does Ontario. In 1979 the Province of Quebec and municipalities underwent fiscal reform. The result of this reform was that municipalities relinquished almost all transfer payments from the province. In 1987, 96 percent of municipal financing comes from property taxes paid by all property owners including the government, institutions, homeowners and commercial and industrial properties.

NEW BRUNSWICK

The authorized school board budget in the province of New Brunswick is 100 percent funded by the provincial government. While the province does tax all properties centrally these revenues are not applied directly to education. Rather provincial funding for education is financed through general revenues and through a social and education tax which is a purchase tax on all sales in the province.

School boards may expend only those sums of money allocated to them from the province. However, school boards are allowed to retain surpluses and incur deficits for two years.

NOVA SCOTIA

Approved education expenditures, in the province of Nova Scotia, are funded through the "general formula funding" grant. This grant is comprised of provincial and local

contributions. Provincial grants are determined on a per pupil basis and represents approximately 80 percent of approved expenditures.

Municipal contributions represent approximately 20 percent of approved expenditures and calculated by a prescribed education tax rate on assessment. Expenditures in excess of these approved costs must be approved by the municipal unit and raised at the municipal level through property taxes.

PRINCE EDWARD ISLAND

Authorized school board expenditures are financed 100 percent by the provincial government. Funding above this level must be raised through local property taxes and must be approved by the Minister responsible for education. As of 1985, no additional revenues through property taxes had been approved. In addition, should school boards overspend in any year, the amount of over expenditure is deducted from the grants of the second year after the year of deficit.

NEWFOUNDLAND

The province of Newfoundland funds 100 percent of teachers salaries, 90 percent of pupil transportation, 50 percent of the costs of high school text books, and 100 percent of the costs of elementary textbooks. Overall, provincial grants represent 95 percent of school expenditures. The remaining 5 percent is raised locally through property tax levies. These levies are raised by Local School Tax Authorities which have been granted taxation powers by the legislature. The Authorities are comprised of members appointed by school boards and municipalities.

Source: Council of Ministers of Education, Canada. The Financing of Elementary and Secondary Education in Canada, July 1985.

CHAPTER 2 - HISTORICAL ANALYSIS

Historical

In 1943, the provincial government made a commitment to assume half the cost of school expenditures. While the government kept that promise, they only assumed fifty percent of a number of selected costs. Through the concept of "approved costs" the government was able to maintain some degree of control over funding. At that time the criteria for grants distribution differed from rural area to city. Grants to rural areas related to property assessment while grants to urban areas were based on total population and enrolment.

During the 1950's, the grant structure was adjusted to accommodate the rapid population growth. At that time the government increased its funding for approved costs and placed more emphasis on assessment and population as the basis of the grant.

In 1958, the equalized taxable assessment was incorporated into the funding formula. This allowed the government to relate grants to the revenue raising ability of school boards. Since it was felt that many municipalities attempted to increase their share of grants by under-assessing real property the government introduced equalization factors to adjust local assessments to a more uniform base as well as to offset any grant inequities for municipalities and school boards.

In 1964 a new funding model, the Ontario Foundation Tax Plan, was implemented. This Plan based the cost of education on a model school program. The province set a mill rate that had to be levied by boards and provided grants to bring all boards up to the foundation level. While boards were permitted to spend amounts above this level, they had to raise the whole amount locally.

Procedures for equalizing local assessment continued to create problems. In 1966 the government replaced its 1940 scale with a re-sale or market value scale. Although equalization figures were published annually, assessment figures were not always reviewed as regularly.

In 1969, the Variable Percentage Grant Plan was introduced which incorporated the concept of block grants. Through these grants, the province allocated a sum of money to school boards who were then responsible for determining how they were spent. This plan addressed equality of educational opportunity through the provision of equalization grants. All jurisdictions, regardless of local wealth, had the same mill rate for comparable levels of recognized expenditure. This Plan was maintained until 1978.

Also in 1969, the province undertook to increase provincial support of approved expenditures to sixty percent. This was achieved in the 1973 fiscal year. While the government increased its level of support on approved ordinary expenditures, it imposed expenditure ceilings. Boards that did not keep their expenditures down were subject to penalties.

In 1978, the government introduced the Current Mill Rate Equalization Plan which was also based on the principle of equality of educational opportunity but added the equalization of financial resources. All school boards were given the same mill rate on their equalized property assessment for the same level of recognized ordinary expenditure per pupil. In other words all boards had a similar local tax effort for a comparable level of approved expenditures and had the same revenues through a combination of local property tax revenues and provincial grants. (The concept of "approved" versus "unapproved" costs is discussed in the following section).

Source: Macdonald, Ian. Commission on the Financing of Elementary and Secondary Education in Ontario, 1985.

CHAPTER 3 - EDUCATION FUNDING IN ONTARIO

Education is funded by provincial and local government contributions. Provincial contributions are allocated to school boards in the form of General Legislative Grants from Provincial Consolidated Revenue Fund Outflows, while local government contributions are raised from the real property tax on residential and farm assessment, and industrial and commercial assessment. The split of equalized assessment for grant purposes is approximately 60 percent residential and farm, and 40 percent commercial and industrial. The provincial share of education contributions are traditionally expressed as a percentage of the school board expenditure and thus these contributions fluctuate from year to year depending on level of school board expenditures. A summary of school board expenditures, general legislative grants, and local taxation for school purposes are illustrated in Chapter 4 (Table 5).

Provincial Funding

General Legislative Grants are comprised of a number of grant programs such as, Ordinary Operating Expenditure Grants, Extraordinary Expenditure Grants and French-Language Program Grants. (A full description of all education grants is listed below). In total, these grants are know as General Legislative Grants and represent the total provincial contribution to education. The total allocation to school boards in 1987 was $3,578.9 million or 45.9 percent of total school board expenditures (the provincial figure does not include capital grants).

Much of the literature on education financing refers to the provincial contribution in terms of "approved costs" or "approved expenditures for grant purposes". In fact, the Macdonald Commission report stated that in 1985, of the estimated total expenditure of $6.8 billion, approximately $5.8 billion is approved for grant purposes (provincial grants are calculated on a provincial estimate of school board expenditures). The provincial rate of support on approved expenditures can be calculated by applying the general legislative grants (3.1 billion) to the approved expenditure total (5.8 billion). The provincial rate of support for 1985 thus becomes 53.5 percent of approved expenditures. In terms of provincial contributions to the total expenditures, in 1985, the percentage of provincial support was 46.4 percent.

If the provincial figure for approved expenditures is compared to the figure for total expenditures, it can be calculated that school boards on average were spending 14.5 percent more than the approved level of expenditures in 1985. This calculation is illustrated below.

$$\frac{\text{PROVINCIAL APPROVED EXPENDITURES FOR GRANTS PURPOSES}\ 5{,}800\ \text{Million}}{\text{TOTAL SCHOOL EXPENDITURES}\ 6{,}787\ \text{Million}} \times 100 = 85.5$$

100 - 85.5 = 14.5 percent over approved school expenditures.

It must be remembered that this figure of 14.5 percent is the provincial average. Percentages of spending above levels approved for grants purposes vary with individual school boards.

While individual school board spending above approved levels is not available for each grant program listed below, figures are available for the Recognized Ordinary Expenditure Grants on a school board basis. A sample of these figures is illustrated below.

TABLE 3

Percentage of School Board Spending Above "Approved Levels" for Recognized Ordinary Expenditure Grants, 1986

Board of Education	Public Elementary	Public Secondary	Separate Elementary
Brant County	9.9 %	7.6 %	- 0.5 %
Chapleau	11.5 %	7.5 %	8.6 %
Essex	7.8 %	12.5 %	1.9 %
Geraldton	5.8 %	2.3 %	- 1.6 %
Haldimand	12.5 %	17.5 %	1.4 %
London	12.2 %	21.3 %	4.5 %
Metro Toronto	47.6 %	44.1 %	7.6 %
Sudbury	13.1 %	17.6 %	1.6 %
Windsor	25.0 %	27.1 %	8.4 %

General Legislative Grants

The annual allocation for General Legislative Grants is subject to government policies and priorities and has to compete with other budgetary requirements such as health, municipal transfers, community and social services, transportation, environment, justice services, industrial development, job creation and public debt interest.

General Legislative Grants are comprised of:

1. **Ordinary Operating Expenditure Grants**

These grants are the lesser of the school boards's actual operating expenditure and the fixed amount per pupil (referred to as grant ceilings). In 1987 the ceiling was $2,710 per elementary pupil and $3,621 per secondary school pupil. These grant ceilings are adjusted by weighing factors which address differences in the programming requirements of individual school boards in areas such as compensatory education, language instruction, technical programs, costs of goods and services, northern school boards and teacher qualification and experience.

These grants are calculated by taking the difference between the board's recognized expenditure (i.e. the number of pupils multiplied by the per pupil ceiling) and the revenue raised by applying a provincially determined mill rate on the equalized assessment of the school board's area. In 1987, these mill rates on residential equalized assessment were 4.491 for elementary schools and 3.334 for secondary schools. The mill rates for commercial and industrial assessment are adjusted to reflect the 15 percent difference in residential and commercial assessment.

The calculations for the Ordinary Operating Expenditure Grants are illustrated in Table 4.

TABLE 4

1.	Enrolment	1000 Pupils
2.	Equalized Assessment	150,000,000
3.	Recognized Ordinary Expenditure per pupil	$ 2,710
4.	Recognized Ordinary Expenditure (1 X 3)	$ 2,710,000
5.	Equalized Mill Rate	4.491
6.	Yield of Equalized Mill Rate (5 X 2)	$ 673,650
7.	Provincial Grant (4 - 6)	$ 2,036,350

2. **Extraordinary Expenditure Grants**

These grants pertain to the types of expenditures that for reasons related to the nature or development of the jurisdiction, differ in terms of per pupil costs among school boards and are for the extra costs related to the acquisition of facilities

and the transportation of pupils. The portions of these expenditures are determined by specific approvals.

3. **French-Language Program Instruction Grants**

The recognized expenditure for grant assistance is $245 per elementary school pupil and either $75 or $81 per secondary school subject credit for French language schools or classes. In addition, there is recognition for some start-up costs where French language classrooms are established.

For French language instruction for non French-speaking pupils, the recognized expenditure is determined by formulae that takes into account the number of pupils instructed, their grade level and the time devoted to instruction. In addition, there is a grant for immersion start-up costs at the secondary school level.

4. **Grants for Special Education Programs in Institutions or Hospitals**

In 1987, grants are the product of the board's total enrollment (not just special education pupils) and a per pupil amount of $206 for elementary and $147 for secondary school operations. In addition, a grant is paid in respect of each trainable retarded pupil of $4,560.

5. **Heritage Language Grants**

Elementary schools receive a grant of $34.50 per classroom hour in respect of heritage language instruction.

6. **Adjustment in Respect of Change in Tax Revenue**

School boards grants compensate for any prior calendar year difference between the amount requisitioned by the school board or yield of the mill rate on assessment and actual taxes received. Effectively boards are compensated for write-off of taxes and grants are reduced on account of supplementary taxes received.

7. **Special Debenture Assistance**

Debt charges acceptable to the Minister on debentures issued by a school board prior to April, 1980 that were not approved for grant assistance at the time of issue are now eligible for some assistance.

8. **Grants for Boards on Tax-Exempt Land**

School Boards on tax exempt land receive grants from the province. These boards are Department of National Defence School Boards. Special funding provisions also

apply to school boards established in a sanitorium, a hospital, a crippled children's treatment centre or a centre for the treatment of cerebral palsy.

9. **Grants for Isolate School Boards**

Small remote boards (with enrollment of 300 or less) receive grants equal to all approved costs in excess of the yield of a mill rate on equalized assessment of 4.633 for elementary and 3.412 for secondary school boards.

10. **Cost of Education Reimbursement**

A grant is payable to school boards which provide education for: an Ontario pupil who does not reside within the school board's jurisdiction, Federal Crown land or Indian Reserve; a pupil who is a resident of specified facilities, institutions or homes; or a pupil who is a ward of the Children's Aid Society.

11. **Direct Capital Grants**

While these grants fall under the heading of General Legislative Grants they are not used in the provincial calculation of General Legislative Grants.

Since 1980, the grants to school boards on major approved capital projects are paid as the expenditures are incurred. Payments are made bimonthly based on progress certificates submitted by school boards.

12. **Assessment Equalization Factors**

The 1987 formula includes a provision which guarantees that no school board will receive less grant for reasons of using the average of the provincial equalization factors issued by the Ministry of Revenue in 1982, 1983, 1984, 1985, and 1986. The comparison is to assessment equalized using the factors that were applicable in 1979. Similarly, grants have been provided to school boards to ensure that there is no increase in the proportion of school board requisition that is borne by a municipality for reason of the new equalization factors.

13. **Secondary School Reorganization Grant**

In 1980, provisions were introduced to encourage French language programs at the secondary school level. Grants are available to offset the start-up costs associated with the establishment of a new homogeneous, French language entities.

14. **Continuing Education, Secondary Summer School and Driver Education Grant (New Program in 1987)**

The Ministry provides grants in respect of specific continuing education programs such as: adult basic literacy, citizenship and language instruction for landed immigrants, English as a second language for adults and courses for adults for which secondary school credits are given. In 1987, the new formula provides grants to school boards of $1,900 per full-time equivalent pupil.

15. **Grant for Native as a Second Language Instruction (New Program in 1987)**

A school board receiving approval upon application, will receive a grant on an eligible sum which will be calculated in the same manner as that for French as a second language.

16. **Special Assistance for En Bloc Transfers (New Program in 1987)**

This grant applies where there is a transfer of the Secondary French as a First Language Program from a board of education to an "Extended" Separate School Board.

17. **Some Special Provisions which Apply in Respect of "Extension"**

Certain provisions in respect of attendance rights of pupils related to separate school extension came into place January 1, 1987. In respect of certain pupils who have attended the public school system in the previous school year (and continue in the same school) and whose parents are separate school ratepayers, the separate school board is required to pay over to the public secondary board a portion of the separate school taxes.

Local Government Funding

The local property tax levy in support of education is comprised of the local mill rate levies determined by the province's grant plan plus levies required to raise school board expenditures that exceed levels recognized for provincial grant purposes and expenditures that are not eligible for grant assistance.

While there is no direct control over school board expenditures, those expenditures in excess of amounts recognized for grant purposes are financed 100% through local residential, farm, commercial and industrial property taxes.

CHAPTER 4 - OPTIONS FOR EDUCATION FUNDING

INTRODUCTION

The following chapter presents five alternative funding arrangements for education. Each option has a different impact on the way in which revenue is raised and the method of distribution of those revenues to support education programs. Background information on each issue has been included under each of these options for reference purposes. Also included in this chapter is the Association's recommendations on each of these options.

OPTION 1 - RETURN TO 60 PERCENT FUNDING LEVEL OF SCHOOL BOARD EXPENDITURES

Issue

The provincial share of education contributions is often expressed as a percentage of the total school board expenditure and thus these percentages fluctuate annually depending on the level of school board expenditures. In 1987 the provincial contribution to education represented 45.9 percent of total school board expenditures. In terms of provincial approved expenditures, the provincial contribution represented 53.5 percent.

The concept of the 60 percent funding level was developed in the late 1960's when the provincial government stated that it would increase its financial support for education to 60 percent of school board expenditures by the fiscal year 1972-73. In 1973, provincial grants reached 60.5 percent of total school board expenditures. In 1975 the provincial share increased to its highest level of 61.3 percent. Since that time however, the provincial share has continued to decrease and in 1986 the provincial rate of support reached a low of 45.5 percent of total expenditures. A history of school board expenditures, general legislative grants and local taxes for school purposes is illustrated below in Table 5.

Table 5, School Board Expenditures, General Legislative Grants (GLG), Local Taxation and Provincial Rate of Support in Ontario 1970-87

Year	School Board Expenditure ($)	($ Million) GLG ($)	Local Taxation ($)	Provincial Rate of Support (%)
1970	1,639.5	844.6	794.9	51.5
1971	1,784.2	1,012.5	771.7	56.8
1972	1,935.7	1,155.2	780.5	59.7
1973	1,999.3	1,209.9	789.4	60.5
1974	2,217.3	1,317.9	899.4	59.4
1975	2,656.2	1,628.7	1,027.5	61.3
1976	3,105.1	1,720.2	1,384.9	55.4
1977	3,407.1	1,870.6	1,536.5	54.9
1978	3,661.4	1,951.8	1,709.6	53.3
1979	3,919.0	2,055.9	1,863.1	52.5
1980	4,285.3	2,230.7	2,054.6	52.1
1981	4,791.4	2,484.7	2,306.7	51.9
1982	5,428.8	2,741.1	2,687.7	50.5
1983	5,912.6	2,919.9	2,992.7	49.4
1984	6,337.2	3,017.3	3,319.9	47.6
1985	6,787.0	3,151.8	3,635.2	46.4
1986	7,289.5	3,319.6	3,969.9	45.5
1987 (est.)	7,800.0	3,578.9	4,221.1	45.9

Source: Ministry of Education

* General Legislative Grants do not include Capital Grants for this Table.

According to the Report of the Macdonald Commission (1985), provincial grants, on a per-pupil basis, has kept pace with inflation. However, continuing pressure has been exerted on the school boards and the local taxation base by the introduction of new programs and services such as the higher qualifications required by teachers, mandatory special education, second language instruction, the heritages language program, cooperative education and adult basic education. Provincial grants have not always kept up with these costs, resulting in a gradually increasing strain upon the local tax base. In 1987, the school board share of local taxes represented 50.7 percent of total municipal levies.

As a result of their study, the Macdonald Commission recommended (#23) that government of Ontario should reaffirm its financial commitment toward the funding of education and that it move toward contributing 60 percent of the approved costs.

AMO, in 1986, addressed the issue of returning to the 60 percent level of funding in response to the Commission's recommendation by stating that until the provincial government determines a means for removing all education costs from the property tax base, AMO urges the government to return to a province-wide minimum funding at 60 percent of realistic expenditures.

In relation to recommendation #23, the Macdonald Commission also recommended (#25 and #26) that the Ministry of Education increase the per pupil grant ceilings to more realistic levels, with additional general legislative grants and that the ministry employ accurate costing techniques, articulate the ceiling components, and study the appropriateness of introducing differentiated ceilings based on curriculum divisions, levels of difficulty and program delivered. The rationale for this recommendation was in part due to the fact that limited information is available to the public on the purpose of the ceilings and on the rationale, justification and calculation of the components.

Option

A recommendation which requests that the provincial government move towards contributing 60 percent of education costs is a rather open-ended statement. Before this option is considered the definition of the 60 percent level of provincial contribution must be annunciated. Does this 60 percent refer to a contribution based on total school board expenditures or on provincial approved levels for grants purposes? In addition, does this 60 percent refer to the provincial average contribution to education or the minimum level of contribution to each school board (i.e. all school boards receive at least 60 percent of their expenditures from the province)?

The following charts list the advantages and disadvantages of this option in terms of the variables in definitions.

ADVANTAGES

	OF TOTAL EXPENDITURES	OF APPROVED EXPENDITURES
60 PERCENT MINIMUM PROVINCIAL FUNDING	A. o would ease the current strain on the property tax base o would ensure a minimum level of funding for every school board	C. o would ease strain on property tax base only if province realigned its "approved" expenditure ceilings
60 PERCENT AVERAGE PROVINCIAL FUNDING	B. o would ease the current strain on the property tax base	D. o would ease strain on property tax base only if province realigned its "approved" expenditure ceilings o least costly of the four scenarios

DISADVANTAGES

	OF TOTAL EXPENDITURES	OF APPROVAL EXPENDITURES
60 PERCENT MINIMUM PROVINCIAL CONTRIBUTION	A. o might not be politically acceptable as it is very costly (most costly scenario for the province) o province may not want to commit to an open-ended arrangement as there is no guarantee school boards would keep expenditures down o doesn't address equity problems inherent in the education finance system as ceilings do not take into account differing costs and differing needs of students o does not concur with AMO's position that education should be entirely financed by the province and not from the property tax base	C. o does not ease pressures on property tax base due to introduction of new provincial programs, etc. o doesn't address equity problems in the education finance system as ceilings do not take into account differing costs and differing needs of students o provincial government could keep approved level of expenditures down while still adding new programs (i.e. deliver the same amount of $ without increasing "approved" expenditures) o would cost the province more than scenario D o does not concur with AMO's position that education should be entirely financed by the province and not from the property tax base
60 PERCENT AVERAGE CONTRIBUTION	B. o province may not want to commit to an open-ended arrangement as there is no guarantee school boards would keep expenditures down o doesn't address equity problems in the education finance system as ceilings do not take into account differing costs and differing needs of students o does not concur with AMO's position that education should be entirely financed by the province and not from the property tax base o does not ensure a minimum provincial level of funding for school boards (i.e. those that fall below the average) o provincial contribution to education would increase by $1.1 billion	D. o does not ease pressures on property tax base due to introduction of new provincial programs, etc. o does not address equity o provincial government could keep approved level of expenditures down while still adding new programs (i.e. deliver the same amount of $ without increasing "approved" expenditures) o doesn't address equity problems in the education finance system as ceilings do not take into account differing costs and differing needs of students o does not concur with AMO's position that education should be entirely financed by the province and not from the property tax base

RECOMMENDATION:

The Association recommends that for the 1989 transfer of General Legislative Grants to school boards, the provincial government provide a minimum of 60 percent funding (i.e. at least 60 percent to each school board), of total school board expenditures.

Minority Positions

ROMA, the Rural Section of AMO, does not concur with the recommendation of the provincial government provision of 60 percent funding of education, as it is felt that it is an interim measure which will delay the ultimate objective of removing education costs from the property tax base.

The County and Regional Section of AMO concurs with the recommendation of the provincial government provision of a minimum of 60 percent funding of total school board expenditures and suggests that per pupil grant ceilings should be adjusted to more realistic levels, with additional general legislative grants and that the Ministry of Education employ accurate costing techniques, articulate the ceiling components, and study the appropriateness of introducing differentiated ceilings based on curriculum divisions, levels of difficulty and programs delivered.

OPTION 2 - CHANGES TO APPORTIONMENT OF SCHOOL TAXES

Issue

Only local municipalities can levy property taxes to finance municipal (including regional and county), and school requirements. The financial requirements of school boards above provincial revenues are raised using the assessment base of each constituent municipality. In order to determine the amount to be raised by each municipality, the school board makes an apportionment to each, based on a formula set out under the Ministry of Education's regulations (1987 - Ontario Regulation #99/87).

Since all municipalities have not undergone reassessment, the Ministry of Revenue publishes each year, assessment equalization factors which attempt to relate each municipality's assessed property values to the market values for property in that municipality. In theory, this makes all property in Ontario comparable by relating it to a common standard - market value. These factors are used to apportion the costs related to regional government requisitions and school board levies and grants such as the Resource Equalization Grant.

When the province assumed responsibility for assessment in 1970, the equalization factors which had been developed earlier were frozen. In 1980, the Province recalculated the equalization factors to more closely relate to property values. In anticipation of the abrupt changes (increases and decreases) that these new factors would have on municipalities, it was decided to phase-in the recalculated equalization factors. For the purposes of education apportionment the new formula limited the amount of change in equalized assessment for a particular municipality to the average provincial increase that occurred in the 1970's plus or minus 5 percent. To further smooth out annual changes a five year averaging of equalization factors was also used. In addition, the province guaranteed that a municipality would not pay more as a result of the new formula than it would using the old frozen factor. (The Ministry of Education refers to the five year average factors as Assessment Equalization Factors (AEF)).

The 1979 Assessment Equalization Factors have been used in the school board apportionment calculation for every year since 1979. These are the values for every municipality in Ontario published in the Ontario Gazette in 1979.

The 1987 Assessment Equalization Factors are the five year average of Provincial equalization factors for 1982-1986 for each Ontario municipality. These values, as well as the 1979 factors, are used in the 1987 apportionment calculation.

The concept behind the apportionment calculation is fairly straightforward, but the actual carrying out of the calculation is complex. After 1979, each school board calculated the apportionment of the levy in two ways.

The first method uses the current year's assessment and the 1979 equalization factor. The result is an equalized assessment value for each municipality. From these equalized assessment values, a sharing ratio for the school board requisition (SR1) for each municipality is calculated.

The second method is similar to the first method except that the AEF for the current year is used. However, the equalization factor is constrained and not allowed to deviate by more than 5% from the provincial average for assessment equalization factors. The result of this calculation is a second set of sharing ratios (SR2) for each municipality.

The final step compares SR1 and SR2. Whichever is lower, (i.e. whichever benefits the municipality the most), is used to apportion the school board's requisition on the municipality for that year. Because two different methods are used to calculate sharing ratios, it is possible that all of the ratios added together will not equal 100% of the school board's requirement and the board will be left with an uncollectible shortfall in its requisition. The province makes up the difference by providing an Apportionment Guarantee Grant to the school board which is equal to the shortfall amount.

The definitions and details of this general calculation is illustrated below.

I. Definitions

AEF 1987 — Assessment Equalization Factors for 1987. These are the five year average of Provincial Equalization Factors which are published each year in the Ontario Gazette.

AEF Change — This equals:

$$\frac{\text{AEF 1979 for Municipality}}{\text{3.01 x AEF 1987 for Municipality}}$$

This is the value that is constrained. If this value varies more than 5% from the Province-wide average, it is constrained to a maximum of +5% or -5% from Province-wide average.

SR1 — Sharing ratio determined by using the first method of calculation.

SR2 — Sharing Ratio determined by using the second method of calculation.

Rateable Assessment 1987 — $\frac{\text{The 1987 Residential/Farm Assessment plus the Business/Commercial Assessment}}{.85}$

No adjustment for equivalent assessment is included.

II. Calculation

For each municipality within its jurisdiction, the school board is required to calculate SR1 and SR2 and to use the lowest value of the two in calculating each municipality's share of the total school board requisition.

Method 1

$$\frac{\text{1987 Rateable Assessment X 100}}{\text{AEF 1979}}$$

The above calculation results in an Equivalent Assessment for each municipality. Each municipality's Equivalent Assessment, so calculated, as a ratio of the total equivalent assessment, so calculated, is its sharing ratio (SR1).

Method 2 — For each municipality, the 1987 AEF Change Index is determined. Three results are possible.

AEF Change Index 1987	Calculation of Equivalent Assessment
i) Change Index is between .95 and 1.05	$\frac{\text{1987 Rateable Assessment X 100}}{\text{AEF 1987}}$
ii) Change Index is less than .95	$\frac{\text{1987 Rateable Assessment X 100 x .95 X}}{\text{AEF 1987}} \quad \frac{1}{\text{Change Index}}$
iii) Change Index is greater than 1.05	$\frac{\text{1987 Rateable Assessment X 100 X 1.05 X}}{\text{AEF 1987}} \quad \frac{1}{\text{Change Index}}$

The above calculation results in an Equivalent Assessment for each municipality. Each municipality's equivalent assessment, so calculated, as a ratio of the total equivalent assessment, so calculated, is its sharing ratio (SR2).

The result of the inconsistencies and inequities of the equalization factor calculations as well as the phase-in of the 1980 recalculated factors is that the gap has grown between municipalities which had a greater assessment base in 1969 than their neighbor municipalities. The formula limiting the percentage increase to plus or minus 5 percent ensures that municipalities that experienced rapid growth in property values during the 1970's, which expanded their assessment base, do not have to pay their resultant larger share.

It has been estimated that approximately 300 municipalities are paying more than their fair share of school taxes.

Option

The option of changing the apportionment for school taxes to a system which more closely relates property assessment to apportionment for school purposes has a number of advantages and disadvantages.

Advantages

1. It would make for a more equitable apportionment for school taxes within an area.

2. It would rectify a system which makes approximately 300 municipalities pay more than their fair share of education taxes.

3. It would likely simplify the education apportionment calculation.

Disadvantages

1. It would increase education taxes for approximately 300 municipalities.

2. It would likely require a phase-in strategy to reduce shifts in education taxes.

RECOMMENDATION:

The Association recommends that the Ministry of Education revise its system of apportionment so that the school tax burden will be shared on a more current and equitable basis; and that all municipalities undergo county/region/district wide reassessment to create proper equalization factors.

OPTION 3 - 100% FUNDING FROM THE PROVINCIAL TAX BASE

Issue

AMO Policy Guideline E-02 - Education Finance states:

"Since the benefits of a good education system are not directly related to property but extend throughout the province, and the nation, education costs should be entirely financed from forms of tax revenue other than the property tax".

In 1987, the Association endorsed a resolution, FIN-12 - Use of Property Tax to Fund Educational Costs, which requested that the provincial government assume responsibility of total funding of education services in the province of Ontario. The reasons for this resolution were that: property taxes have escalated tremendously since the inception of the larger unit school boards; and, the education system is for the betterment of all society and accounts for over one-half of the property tax bill and has no direct relationship to the worth of property.

This resolution is consistent with AMO's response to the Macdonald Commission Report which requested that the government determine a means for removing all education costs from the property tax base. While the Macdonald Commission considered this alternative it was not recommended. The Report did state however, that "total funding by the province would present the greatest scope for equalizing education opportunity".

If the province were to implement this option it could do so in basically two ways:

1. The province could take over education funding with no trade-offs for municipalities. In 1986, total school board expenditures were $ 7,289 million and total provincial contributions were $3,319 million. In 1986, the province would have had to assume an additional expense of $3,970 million to totally fund education in Ontario.

2. Another method could involve a trade of municipal transfer payments for the assumption of education costs. In 1986, total transfer payments to local government amounted to $3,406 million (transfer payments include: unconditional grants and conditional transfers with respect to roads, transit, social services, health, environment, recreation and culture, miscellaneous grants and the Ontario Municipal Improvement Fund). Total education costs for 1986 were $7,289 million. If the province were to trade transfer payments for the total funding of education, the province would have to contribute an additional $564 million. This could be raised through traditional provincial means of raising revenue or a new education tax could be added on personal income.

Option

Advantages

1. It presents the greatest scope for equalizing educational opportunity and would lend itself to a program-funding approach.

2. It would remove the burden of education costs from the property tax base.

3. It would be consistent with the current AMO Policy Position on education funding.

4. It would alleviate current problems of property assessment and education apportionment.

Disadvantages

1. It would be politically unacceptable for the province as it would cost too much money to implement.

2. It would be politically unacceptable for local school trustees as there would be a loss of authority and control.

3. There would be uncertainty of the ways and means of returning property savings to tenants.

4. There would be a loss of contributions by non-resident property owners.

5. There would be real and undetermined shifts in the tax burden from property ownership to general wage and income owners.

RECOMMENDATION:

The Association reaffirms its ultimate goal of 100 percent provincial funding of education.

Minority Position:

The Northern Ontario Section of AMO concurs with the recommendation of 100 percent provincial funding of education provided that the current grant structure is maintained.

OPTION 4 - POOLING OF COMMERCIAL/INDUSTRIAL ASSESSMENT

Issue

In 1982, the Ministry of Education released a proposal for a new formula for the funding of elementary and secondary education in Ontario which was commonly referred to as "The Martin Model". According to the model the revenue base for approved school board expenditures would be: the revenue from residential assessment; revenue from commercial/industrial assessment; and, revenue from provincial transfers. The revenue base for expenditures in excess of the approved level would be: revenue from residential assessment; and, the corresponding revenue from commercial/industrial assessment to be collected by the school board but given to Ministry for redistribution to all school boards in the province. It was felt that this approach to education funding would provide a more equitable access to taxation revenues for education purposes throughout the province.

While the "Martin Model" was never adopted by the Province, the concept of pooling tax revenues, on either a regional or provincial basis, for education purposes, has continued to surface as an alternative to the current system of education finance.

In the 1985, Report of the Macdonald Commission, it was recommended (# 21), that the province determine each year, the commercial and industrial assessment mill rates which will yield the total local revenues accruing from current levies on such assessment and that such local revenues be used to calculate general legislative grants payable to school boards up to the approved level of expenditures and that such mill rates be adjusted annually. In other words, it was recommended that the province collect the local revenues from commercial and industrial assessment for school purposes and redistribute these funds through general legislative grants to school boards.

The provincial argument in favour of this option is the equalization of financial resources throughout the province as revenues from commercial and industrial assessment contribute largely to the unevenness of school board wealth because businesses and industries are located unevenly across the province. Pooling of commercial/industrial assessment would therefore equalize assessment-rich boards and assessment-poor boards.

The recommendation of the Macdonald Commission is for pooling on a provincial basis. Some advocates of pooling believe however that pooling of commercial/industrial assessment should be on a regional basis (see option 2B). The basis for this type of arrangement (equalization of resources) could be partially met at a regional scale.

AMO has in the past responded to provincial pooling proposals. In response to the "Martin Model", AMO rejected the concept of pooling of industrial and commercial assessments for school purposes. In response to the Macdonald Commission recommendation AMO stated that it disagreed in the strongest terms with the recommendation. The Association further stated that:

"The recommendation that the province would establish a mill rate on industrial and commercial assessment for all Ontario is an unacceptable provincial encroachment on the municipal tax base. The report acknowledges that the implementation of a provincially established commercial and industrial mill rate and the education revenue it generates

will cause a taxation shift in two directions. The combined effect of this recommendation and recommendation # 27 (school board expenditures in excess of approved costs be charged to residential and farm assessment only), would create shifts from industrial and commercial ratepayers to another stream of farm and residential ratepayers. The Association cannot support this extensive intrusion onto the municipal tax base".

Advantages

1. From a provincial government perspective, this option would allow access to another revenue source for education.

Disadvantages

1. Some school boards stand to lose substantial revenues from this proposal.
2. There is no guarantee that local revenues levied either directly or indirectly will, in total, come back to the education system.
3. Once the government starts levying the education share of commercial/industrial assessment it would be easy to take over the municipal share.
4. It is an encroachment on the local tax base.
5. Pooling may just be a way to finance provincial government initiatives such as: separate schools, new programs, the inclusion of night school teachers into the bargaining unit.
6. If equity is really the problem, the principle of pooling should (could) be applied to other municipally funded services such as health and social services.
7. The proposal seems contrary to other government policies which attempt to decentralize industries and businesses throughout the Province. Municipalities will lose some incentive to attract industries if they cannot directly benefit from local taxes.
8. If school boards lost direct access to commercial and industrial assessments, those expenditures above the Ministry approved expenditures would have to be raised solely from the residential tax base. Currently the split in residential-farm and commercial-industrial assessment is 60/40 respectively.
9. Higher education taxes may result as assessment-rich boards try to replace commercial and industrial taxes lost to the pool to maintain higher levels of service already in place.
10. If provincially set mill rates for commercial and industrial assessment are not realistic, total funding to education could be restricted.

11. While separate schools could gain access to this type of revenue, they might not receive the provincial financial support that is anticipated. There are other means of providing separate school access to commercial/industrial assessment (see option 2B).

RECOMMENDATION:

The Association reaffirms its unanimous opposition to the pooling of commercial and industrial assessment for education purposes.

OPTION 4B - SEPARATE SCHOOL ACCESS TO COMMERCIAL/INDUSTRIAL ASSESSMENT - REGIONAL SHARING

Issue

In June of 1986, the provincial government, through Bill 30 - An Act to Amend to Education Act, made amendments to allow for provincial funding of separate secondary school boards. Until that time, provincial support for separate schools was limited to elementary grades and secondary school to grade 10. The amendments to the Education Act completed this funding arrangement by allowing for provincial support to grades 11, 12 and 13.

While the actual legislation did not pass until 1986, funds were available to separate school boards for grade 11 as of September 1985. The amendment to the Act allowed for a phasing-in of provincial funding. Grade 11 was eligible for funding in 1985, grade 12 in 1986 and grade thirteen in 1987.

While provincial support to separate education was extended, it was noted that there were funding restrictions at the local level in terms of commercial and industrial contributions. Under subsection 126 (1) of the Education Act, a corporation may "require the whole or any part of the land ... and the whole or any proportion of the business assessment or other assessments of the corporation made under the Assessment Act, to be entered, rated and assessed for the purposes of the separate school".

Subsection 126 (5) of the Act stipulates, however, that: "Unless all stocks or shares are held by Roman Catholics, the share or portion of such land and business or other assessments to be so rated and assessed shall not bear a greater proportion to the whole of such assessments than the amount of the stock or shares so held bears to the whole amount of the stock or shares".

The effect of this legislation is that all undesignated assessments of the corporation are assigned to public school purposes. However, corporate assessments very often go undesignated as it is difficult to determine the religious affiliation of the holders of all stocks and shares yet the undesignated portion reverts automatically to public school purposes. In other words, the share of public/separate school support from corporate assessment may have no relation to the affiliation of its stock and share holders.

In response to this issue the Macdonald Commission recommended (#19) that subsection 126 (5) of the Education Act be amended to require corporation assessment in a municipality not designated for public school or separate school purposes be assessed for public school or separate school purposes in the same proportion as the residential and farm assessment of the respective boards bear to each other. It was felt that such an amendment would lead to an equitable regional sharing of the commercial and industrial assessment between school systems in what would be clearly defined geographical boundaries.

AMO disagreed with this recommendation stating that:

"The Macdonald Report indicates that the purpose of this recommendation is to increase the separate school system's share of industrial and commercial assessment within an education administrative jurisdiction. The recommendation, in combination with others in the report (such as the financing of school board in excess of approved levels be through the residential and farm assessment only), forms the basis for regional pooling of industrial and commercial assessment. To the extent that this recommendation is tied to Bill 30: An Act to Amend the Education Act, AMO has no comment".

"AMO believes that for the province to distribute corporate taxes from one education system to another, on the basis of anything except the expressed designation of tax support by the corporation itself, is untenable. Provincial intrusion into the distribution of industrial and commercial property taxes is unwelcome. Additionally, the suggestion that the distribution of taxes from one set of property classes can be determined on the basis of another set of property classes' tax distribution, does not reflect an understanding of the role of property taxes or the rights of the taxpayer".

In addition to the problems with corporate assessment is the issue of business partnerships. Under the current provisions dealing with partnerships, partnership taxes may be directed to the separate school system only if all partners are Roman Catholic. In other words where even one partner is a non-Catholic, all taxes automatically go to the support of public schools.

The Macdonald Commission also addressed this issue by recommending that section 126 of the Education Act be amended to allow partnerships to direct a portion of their assessment for separate school purposes where one or more of the partners in a partnership is Roman Catholic.

In response to this recommendation, AMO stated that:

"The Association supports making the treatment of Roman Catholic ratepayers in partnerships consistent with the existing treatment of Roman Catholic ratepayers in other business formations".

Option

Advantages

1. This option taken out of the context of the Macdonald Report (i.e. so that it is not tied to other recommendations) would provide a fair system of distributing commercial/industrial assessments between public and separate school boards.

2. It appears that this option would achieve the provincial governments policy of extending funding to separate school boards without creating the need to develop a provincial pooling scheme.

Disadvantages

1. In the context of "regional pooling" (i.e. separate school access to commercial/industrial assessment and school board expenditures above approved expenditure

ceiling be taken from the residential and farm assessment only) would have similar impacts as that for provincial pooling of commercial/industrial assessment (see option 2A).

2. In relation to the Macdonald Commission recommendation there is some concern over the definition of a "region". It could be based on geographical, economic or political boundaries.

3. By allowing school boards access to commercial/industrial assessment, mill rates would probably have to be increased by public school boards to collect the funds lost to separate school boards (i.e. there would be an increased strain on commercial and industrial sector).

RECOMMENDATION:

The Board of Directors of the Association did not comment on this option.

OPTION 5 - PROPERTY TAX CREDIT SCHEME

Issue

This option was considered by AMO through the recommendation of the Macdonald Commission (# 24) that "the government of Ontario introduce a property tax credit program for residential and farm ratepayers and that the program be financed by an education tax on personal income". It was proposed that farm and residential ratepayers would be eligible to claim a property tax credit from the province equal to an approved portion of the education property taxes paid to local school boards.

In 1986, AMO supported the intent of this option which was to introduce a degree of progressivity to education taxes but felt that other revenue sources should be used to fund education (i.e. provincial funding from general revenue).

Option

Advantages

1. It would alleviate the burden of residential and farm property taxation on home-owners and tenants in Ontario.

2. It would add progressivity to education taxes.

Disadvantages

1. It would not address equalization of education finance throughout the province.

2. It would not ease the burden on the property tax base.

3. It is inconsistent with the AMO Policy Position that education be financed entirely by the provincial government.

4. It may be viewed as a short-term improvement to education funding.

5. It does not help commercial and industrial property owners.

RECOMMENDATION:

The Association of Municipalities of Ontario rejects the option of a property tax credit program for residential and farm ratepayers.

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